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THE CAUSE OF A CRISIS

(*FLURSCHEIM'S THEORY*).

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THE CAUSE OF A CRISIS.

MONEY.

No one, I suppose, will dispute that the ruling power in the industrial world is money.

It is money that hires labour, that buys goods, that starts enterprises, that is lent as capital, paid as interest, collected as taxes. The farmer may want his land tilled, and the labourer may be ready to till it, but unless the farmer has money to pay wages the soil remains untilled and the labourer unemployed. The shopkeeper may have clothes (and other goods) offered for sale, and the man outside may be sorely in want of them, but unless he has money to buy them the clothes remain unsold and the man unclothed.

Affairs are so constituted that nothing can be done without money. Money failing, exchange ceases; and exchange ceasing, production stops, for production cannot be carried on without exchange. No one produces everything for himself. He must get food from one, clothes from another, tools from this man, materials from that, transport from a third, and none of these things can be got for nothing; something must be given in exchange, and the only thing that will be accepted is money.

Money, in short, is to the industrial body what blood is to the physiological body. Not only must it be present but it must circulate. What is this money, the circulation of which is so vital a necessity? "Coin," says some one. "We see and handle it daily."

Well, coin is one form of money certainly, and in its way a most important form; still it is only one form, and a very subsidiary form. The man who is recognised by all as a "moneyed man" has very little coin, often not more than a few shillings in his possession, and the greater his wealth the smaller always is the proportion that he holds in coin.

The largest transactions are effected without any coin passing at all. It is only in petty transactions, or for small balances, that coin passes. The great mass of business transactions is effected either by paper in some form, or by the balancing of contra accounts.

This *money* that rules the market, that employs labour, that starts enterprise, that the rich lend and the needy borrow is not a material substance at all, though material substances such as coin or paper are largely used to represent and to transfer it.

It is *general purchasing power*—command of the goods and services of others, based on a recognised claim for past services rendered, real or imaginary; a claim for something transferred, something done or something permitted. For something transferred, as for goods sold,

or cash deposited in a bank, or lent on a mortgage or a debenture. For something done, as for work performed or enterprise started. For something permitted, as for permission granted to use a given piece of land.

The service rendered is a thing of the past. The goods sold have probably been long ago consumed; the cash lent has passed into the general circulation and can no longer be identified; the enterprise has either failed and disappeared, or has succeeded and now maintains itself; the land is being put to use by the tenant, not by the landlord who gave him permission to use it, and who has no concern with the land (while the lease runs) but to receive the rent.

In every case all that remains to the claimant is his claim, a claim, not for some particular goods, as grain or boots, but for *value*, for general purchasing power, or command of the goods and services of others to a specified amount; which purchasing power, transferable from hand to hand, is recognised as money, no matter in what form it be embodied, whether as coin, as paper, or as simple entry to credit at a bank; and circulation of money consists in the passing of this general purchasing power from person to person. The balance that a man has at his bank is recognised as money, and gives him the purchasing power of money, and the cheques with which he transfers it, or the coin for which he cancels it, are also money. The motionless balance and the moving cheque confer the same power, and go by the same name. In other words, the thing itself and the material instrument that transfers or embodies it are spoken of as if they were the same. And no great harm results, for the difference is only the difference between Statics and Dynamics. The one represents money at rest, the other money in motion.

But the point to be attended to is that money itself, in the sense in which the business world understands the term,—this thing which buys good, hires services, fetches interest, and so on—is not a material substance at all, though material substances are often used to embody or to transfer it, but general *purchasing power* or command of goods and services of others. When it is to a large amount it is as often called capital as money. The man of business means the same thing by the two terms, and uses them indifferently. What the closet philosopher means by them is of small consequence.

A sovereign and a bank note, or cheque for £1, are alike in this, that they are both useless in themselves, useful only to exchange away for other things, and that they both represent purchasing power to the amount of twenty shillings. But they differ in this, that the purchasing power of the cheque or note depends on the solvency of the person or bank on whom it is drawn, while the purchasing power of the sovereign is independent of any particular person's solvency, and is good everywhere. (There are of course other highly important differences between coin and paper, but they do not concern the present question.) But since, as we have seen, money consists of purchasing power, and purchasing power consists for the most part of registered claims on persons liable to fail at any moment, this larger part may disappear at any moment; and when a crisis occurs much of it does so disappear, and "money becomes scarce." Thus, suppose a tradesman is paying £100 rent to a landlord, £100 interest to a

money lender, spending £100 in wages, and making £100 profit for himself, then here is £400 circulating. Suppose now that through a bad speculation, a defaulting cashier, or any other cause, he fails in one of his liabilities, say the interest, and the money lender sells him up, the source of all four incomes being dried up, all four incomes disappear together. The quantity of real wealth—of goods—is exactly what it was. It is dispersed but not annihilated; but the £400 which that business put into circulation has disappeared. It never had any substantial existence. It may revive no doubt. The landlord will relet the premises, the money lender (if he has got his money back) will find a fresh investment, the employés will find another employer, and the ruined man another occupation. But for the present all four incomes have gone, and none of them revive immediately. Indeed, when such failures are numerous and on a large scale, as in a commercial crisis, it often takes a long time, months, sometimes years, before complete recovery.

It is in view of this danger that a party in America insist on the State coining annually large quantities of silver, so that money (as they think) can never become scarce nor crises occur.

Such a device, however, would be quite ineffective for the purpose, because the superiority (in some respects) of paper over coin as a circulating medium is so enormous that the great bulk of transactions would continue to be effected by paper, no matter how plentiful coin was.

£1,000 is much safer kept in the form of a simple entry to credit in a ledger than as a bag of sovereigns. It is much easier transferred from person to person, and saves an infinity of trouble and risk in transport from place to place. Moreover a cheque need not be written till it is wanted, and if destroyed, another can be written, while sovereigns would have to be carried about always, and once lost or destroyed could not be replaced.

Paper does not supersede coin from any scarcity of coin, but because of its greater convenience, though for reasons which we need not go into, it cannot altogether supersede coin.

The only result then of forcibly increasing coin beyond the immediate requirement of trade would be to lessen its purchasing power. If a given number of sovereigns are sufficient for present transactions, doubling their number would only halve their value. Whatever now costs £1 would then cost £2; and the paper, which expresses itself in pounds, would have to express double values.

TRIBUTE V. EARNINGS.

Whoever wishes to get a clear idea of the industrial problem must begin by realising thoroughly the fundamental difference between Tribute and Earnings. This is the key to the whole question.

Society consists of two classes:

1. The class that lives by producing goods, or rendering active service of some sort; that is by work, the reward for which, called fees in the case of professional men, profit in the case of employers, salary or wages in the case of subordinate workers, may be summed

up in the word *earnings*. And 2. The class which neither produces goods nor actively earns anything, but lives on the earnings of others, having acquired possession of something, land or money, which it has no present intention of using itself, but which is necessary to other people and which it charges them for the mere permission to use. These two charges, Rent and Interest, we express together by the term Tribute.

No doubt there are persons who, while doing nothing to earn their income, yet do other work, often very valuable work, gratuitously; of such are scientific men like Darwin, statesmen, like scores who could be named, and so on. And there are others who enjoy two distinct incomes, one from Tribute, which they do not earn, and one from useful work, which they do earn, so that the two classes appear superficially to merge into each other.

For all that, the two kinds of income remain perfectly distinct. Tribute (Rent and Interest) accrues all the same, whether the claimant works or plays; whether he is well or ill; even whether he is alive or dead; for the claim once established is immortal, and continues (unless the landlord is bought out, or the creditor paid off) from heir to heir, from generation to generation.

Once land is let, or money lent, the day of tribute comes round with unfailing regularity. The tenant's crop may fail, the borrower's enterprise may break down, but the tribute comes due all the same.

The system may be just or unjust, beneficial or injurious; we are not here concerned with the ethics of the matter, but with the facts only.

Grasp well before proceeding further this fundamental difference between Tribute and Earnings, and realise that everybody's income is resolvable into one or the other.

We shall express the class that lives on tribute by the letter T, and the class that lives by work by the letter W.

TRIBUTE CAN ONLY BE PAID BY WORK.

W can only pay T by work, that is by producing goods or rendering active services for him. (For brevity's sake, and to avoid having constantly to give double illustrations, we shall say—by goods.)

But though the tribute can only be paid by goods it is not payable in goods, but in money. T is not obliged to take W's goods, and yet can insist on payment all the same.

If T received his tribute in goods he would have to live up to his income or lose a portion of it. He would have to use the goods, for many of them would spoil immediately, while all would begin to deteriorate, besides incurring costs of storage and guardianship. If the goods consisted of articles of maintenance or enjoyment, food and clothes for example, the food would have to be eaten and the clothes worn as soon as possible, or they would spoil. If they consisted of "wealth devoted to production," of tools and raw material for example, of goods whose only use was to produce other goods, they would have to be applied to the work for which they were adapted, or they too would begin to deteriorate, and go to waste.

The result would be that nothing would hang on sale, lie idle or go to waste. Everything would be put to the use for which it was fit without delay. There would be great consumption widely diffused; there would be rapid sale of goods, incessant demand, employment for all, active industry, circulating money, rising wages.

If T received his tribute in money, but spent that money at once, the result would be the same.

T, however, does not either receive his tribute in goods, nor yet spend it all. He receives it in money, and he finds it quite easy to save that. That does not spoil by keeping, nor yet incur expense of storage. On the contrary, it brings him in interest. So he saves, not by storing goods nor hoarding coin, but simply by contracting his expenditure, and leaving the unexpended balance somewhere as an unsatisfied claim. He abstains from taking from W goods equivalent to the full amount to which he is entitled, and yet does not waive his claim. In other words, he refuses to allow W to pay his debt in the only way in which he can pay it, and yet charges him for not paying it.

What is W to do? T's refusal to buy lessens the general demand for goods, contracts the market, brings down prices.

W cannot use the rejected goods himself because, owing to the differentiation of industry, each producer lives by producing a single article, or class of articles, often of a kind that is of no use to him at all, always more in quantity than he can find use for, even if they are the kind of articles he uses. The farmer, for example, cannot eat all the grain he produces, the clothier wear all the clothes he makes, the cutler use all the tools he manufactures, and even if he did, it would not enable him to find the tribute required of him. Nor can he dispose of these goods amongst his fellow Ws, for, as a class, they are generally in the same plight as himself, and for the same reasons. Some of them there are whose business is simply to buy and sell (shopkeepers, dealers, etc.); these we may call vendors. Others there are whose business is simply to render services, or produce goods for the vendors to sell, they themselves receiving wages; these we may call labourers. The vendors, in whose hands the goods are collected, can neither use them nor sell them to each other, and the labourers cannot buy them because, after satisfying their most pressing wants, they have not money enough left to buy anything else. In short, the poor cannot buy the goods, and the rich won't. So trade becomes dull, employment scarce, earnings fall. There is no scarcity of real wealth, *i.e.*, of goods, yet there is distress among those who produce it because the money—the purchasing power—has accumulated in the hands of T, who won't spend it, but only lend it.

To put it another way. Let a farmer and a cloth-maker represent the workers, one owing £20 a year rent to a landlord, the other £20 interest to a money lender. Tribute day arriving, the workers expect to be able to find the tribute due by the sale of their products. What they sell to each other amounts to a mere exchange of products, beneficial to each no doubt, but of no use in helping to find the tribute. For this they look to the Tribute receivers to buy, *i.e.*, to take their tribute out in goods. T, however, won't; he intends to save, so the workers have to scrape together all the ready money they

can get, and with which they had intended to carry on their business, and they hand that over—£40 in all—to T, who promptly puts it into the savings bank.

Now money being taken as the sign of real wealth, the politician, the statistician, the economist, seeing £40 in the bank, which was not there before, announce this as the year's savings—as the national accumulation for the year—whereas a moment's reflection will show that there has been no saving or accumulation of real wealth at all. The farmer has simply got his usual yield of farm produce, which must be presently eaten (unless it is left to rot), and the cloth-maker has got his usual output of finished goods which also must be presently put to their destined use (unless they are uselessly put by for the moth and rust to corrupt); all that has happened out of the usual way is that the £40 which was in the hands of the workers is now in the bank, to the great loss of the workers who, having now no ready money to go on with, are obliged to go to the bank and borrow the £20 each they require to carry on with. Next tribute day comes round and the workers have their usual output of goods only, but now double their former liabilities, and more; they have each his £20 rent or interest to meet, and the £20 additional they borrowed from the bank, with interest added. And T still persists in "saving" and won't buy, but yet insists on his tribute; there is of course an immediate collapse of everything. Indeed there is a collapse anyhow, for the matter has gone too far to be remedied.

Now if T had not economised, but taken his tribute out in goods, there would have been no apparent saving, but the workers would have met their liabilities without either parting with their cash or borrowing, and industry would have gone on as usual. It was T's "saving" that wrought the whole mischief.

Of course in real life a general break down does not come to pass in a single year, because T does not—cannot—do what for sake of illustration we have supposed, and save his whole income; he only saves $\frac{1}{10}$ or $\frac{1}{11}$ of it, and therefore a crisis only occurs once in every 10 or 11 years; and when it does occur it is not a complete break down, because not all the Ts save, and because numerous unnoticed little breaks down are continually happening which ease the accumulating strain, and avert a complete catastrophe. Money is so identified in our minds with real wealth as signifying it, and being convertible into it, that we fail to realise that the sign does not imply the existence of the thing signified. 100 sovereigns in any one place does not imply the existence of £100 worth of goods in that place, any more than the existence of the goods implies the existence of the sovereigns. Still less, if possible, does an entry to credit in a bank imply the existence of either goods or sovereigns.

Still a good part of the rejected goods can be got off to the richer Ws, for the Ws are of all grades, from the Prime Minister with £10,000 a year down to the out-of-work with nothing. At these extreme points W may be said to pay no tribute; the rich, because they are so independent that they need incur no liabilities (as for the rent they may pay, that is purely voluntary and for their own convenience, seeing they are rich enough to buy their own land and houses if they want to). The poor, on the other hand, having no credit, can incur

no liabilities, broadly speaking, so they also pay no tribute. Really they bear the whole burden of it, but they bear it in poverty and toil, in non-receipt of wealth, not in visible transfer of it as tribute.

The business of *finding* the tribute falls mainly on the Ws who lie between the extremes of rich and poor, and cover the general class of employers. These can for a time continue to find the tribute required of them, notwithstanding T's refusal to buy their goods, partly by lowering their prices and inducing the richer Ws to buy, thus reducing their own earnings; and partly by cutting down the wages and lengthening the hours of their employés, thus taking it out of *their* earnings. Of course they never adopt the former course till they have carried the latter to the furthest point practicable.

The employer is the base on which the whole system rests. For the landlord and the money-lender as such produce nothing, and the labourer, though he does produce, does not come into possession of what he produces; *that* belongs to his employer.

To the employer comes the landlord for his rent, the money-lender for his interest, the labourer for his wages.

If the employer fails, all fail with him; and if he fails in one point he fails in all. For if he fails in his own profit he cannot live, and there is an end of him as an employer. If he fails in rent the landlord ejects him, and stops his work, and his work ceasing, the money-lender's interest and the labourer's wages cease with it. If he fails in his interest the money-lender sells him up, which also stops his work, and with it again the landlord's rent and the labourer's wages. As for his labourer, as he is usually paid weekly, monthly, periodically, somehow as the work goes on, he has rarely much to claim, so we may leave him out as a probable danger. But rent, interest, and wages all depend on the employer, and failure in any one liability brings down the extinguisher on him, and extinguishes the others as well as himself, all four incomes disappear together.

But besides the Ws who supply *T's income* there grows up another class of Ws who enable him to spend it—who live by supplying his wants, so that when his accumulated tribute demands break down *W* who supplies them and his income goes too, these others lose *their* income. So that a whole series of incomes disappear together.

When a crisis comes there is as much distress amongst the Ts as amongst the Ws. Above the cry of the foreclosed farmer, of the sold-up tradesman, of the unemployed labourer, there rises the cry of the wealthy gentleman of "independent means," whose great and sudden fall from opulence to penury attracts special notice; of the widow and the orphan who have lost all their "savings," and who attract special and deserved pity. And really everybody seems to imagine that a pile of accumulated real wealth has suddenly and mysteriously disappeared. When all that has really disappeared is the power of a number of persons who do no work to claim the earnings of those who do. All the real wealth is just as abundant as it was; the stock of goods, of actual utilities is not lessened an iota. Nothing has disappeared but incomes—claims. Yet the business relations of society consist of such an interlacing network of these claims that their cessation throws everything into confusion, and the wheels of the great industrial machine

slacken, its output diminishes, and wide confusion and distress result.

But since T does not hoard his money, but invests it (*i.e.*, passes it on to someone else to spend) it gets spent after all. True. But the expenditure is now taxed, and the tax falls on W. If T. has £1,000 coming to him from W and spends it on a house for himself, employing W to build it, then so many men are employed, the house is built, and the claim is wiped out.

But if he lend it to someone else to build a house, then as before, so many men are employed, and the house is built, but the claim is *not* wiped out, but continues incurring interest, which the worker *somewhere* has to pay.

No doubt the borrower who builds the house benefits in a way by the loan, or he would not borrow. But the mischief is that T's refusal to buy his goods compels him to borrow, for if T spent all his income as he got it, the demand for goods would be so great and continuous, and the money—the purchasing power—instead of accumulating in the hand of a single class, would be so quickly and widely diffused that W would be under no necessity to borrow, and could build his own house with his own earnings.

Saving money so far from adding to accumulations, as the authorities teach, diminishes them by checking production; for goods are produced only to be consumed; and if A, the customer, refuses to have them, B, the producer, will not produce them.

To most people it seems a mere truism that the greater the consumption the less the goods. But it is not true. The very converse is the truth. For the greater the consumption the greater the demand, and the greater the demand the more active the production. Consumption calls forth the goods that it consumes. Indeed, it calls forth more than it consumes, for by far the greater part of the articles we require—all indeed, except food, tobacco, and a few other things—are more or less durable, outlast their first use, outlast many successive uses, and so are produced faster than they are worn out, and thus give rise to accumulations. This durability of most of the articles we produce is indeed the chief cause of accumulating wealth.

Saving money then is not saving goods, but only throwing them on the market unsold, causing what is called “over production,” bringing down profits, embarrassing trade, checking production, and lowering earnings.

The goods remain unsold, not because nobody wants them, for millions want them badly, but because the money, the purchasing power, the command of goods and services, has accumulated in the hands of the fortunate few who don't want them, leaving in the hands of those who do want them barely enough to supply their most pressing wants.

And precisely because T already has so much, he can get more still, with no effort of his own. Because he commands the present he can also command the future; for whatever fresh opportunities of wealth producing come to light, W is too poor to take advantage of them, so they fall into T's hands.

Does someone discover a new method or devise a new machine? It cannot be tested, perfected, brought into use without money; therefore T, who has the money, buys it up for a trifle.

Does someone else find valuable minerals? T generally owns the land and claims them. Even if they are on Crown land W has not the money to develop them, T has, so he buys it up again, and W has to work for him as a hired servant.

Does Government open up fresh lands by new roads? They are too far away or too densely timbered to be of much *immediate* profit, so W, who can't wait for the distant golden future, either lets T take them up, or if he does take them is sooner or later bought out by T, who *can* wait, and who, letting the land for a small profit in the present, can sit comfortably waiting in his chair for the later but inevitable rise of land value.

So no matter what the enterprise may be, nor how promising, nor how thoroughly well able W may be to manage it, so far as knowledge and skill go, it falls into T's hands, and W has to work under him for mere ordinary current wages.

So T saves habitually; and the richer he is, and therefore the less need there is for him to save, the more he saves.

No matter how well assured his future may be, there are always reasons in plenty to induce him to go on saving.

There is the love of power, which is gratified by the reflection that he has plenty, increasingly plenty, money to spend *if he likes*.

There is the importance and influence with others which the reputation of having plenty of money confers.

There is the natural desire to leave one's children as well off as possible. And last, but not least, there is the pernicious doctrine, taught by the highest authorities, that these savings of his are real additions to the national wealth, and represent the fund by which industry is carried on and comforts are diffused.

Notwithstanding all that has been said, saving money in an excellent thing when kept within limits—very narrow limits—for it is a form of insurance.

Like insurance, it adds nothing to accumulations, but it averts suffering. There is no better way for a man to make provision against sickness, or accidents, and for old age, and to give his children a fair start in life than by contracting expenditure, and so saving money.

By this means no goods need be put by to spoil or to deteriorate, to be destroyed or stolen; in any case to lie uselessly idle till wanted. There is no cost of storage and guardianship; and when the time for calling in the provision arrives it comes in money, which will command exactly what may be wanted, instead of in the shape of old and more or less damaged goods, which are sure not to be all of them just what is required.

For these three purposes, and to a limited, reasonable extent, saving money is emphatically good. Nothing is saved by it but a claim upon somebody else; but this claim-saving avoids both cost and waste, and is thus a gain to society at large, as well as a convenience to the saver. The payment falls on W, and comes out of daily production, not out of an imaginary store of previously accumulated goods; but the W who pays it himself benefits by the system, for by it he in like manner can make provision for his own future.

It is the savings—the needless and excessive savings of the rich that do the mischief. The savings of the poor do no harm, or, rather,

they would do no harm but for the oppressive burden caused by the savings of the rich, to which *their* savings of course add fresh increments.

Nothing seems more ridiculous than the way in which intelligent and otherwise well-informed people point from time to time with satisfaction to the country's accumulated savings—not in barns and storehouses, but in the ledgers of lending societies, above all in the savings banks. These last are the very type and specially quoted example of the kind of savings which economists applaud and inculcate, and hardly anyone seems to realise that they are savings on paper only, not in fact; that they represent not accumulated wealth, but accumulated debt, and that the larger the sum of them the greater the burden that W, that industry generally has to bear, and the harder it is becoming to bear it; the more so, too, inasmuch as every investor, as soon as his savings reach a certain point, retires from business to live on his savings, thus taking one from the list of W to add one more to the list of T, and so making it harder than ever for the ranks that he leaves. There is an idea that, though A, who saves nominally may not save really, yet, by deferring payment he enables B to save instead, which comes to the same thing. Yes, it comes to the same thing, for nothing is saved in either case. The goods, if it is goods, are consumed; the money, if it is money, is spent, alike in the one case as in the other. What survives is the claim. The idea, too, that if A had not lent his money he would have spent it unproductively, while B, having to pay interest on it, is bound to spend it productively is a pure assumption, and an unlikely one too. For the very fact that A has saved money shows that he is not a reckless, wasteful, man, and therefore that if he had spent it himself instead of lending it, he would probably have spent it well. While the fact that B wants to borrow, though it MAY indicate that he is a skilful man who only wants money to carry out successfully some useful enterprise, may just as easily indicate that he is reckless in the present, or oversanguine as to the future, or dishonest, and only wants to get hold of money somehow, or in desperate straits and catching at any straw. Indeed, this last is a very common motive for borrowing, and often succeeds in getting what it wants. But whether the money be borrowed to secure success or to postpone ruin, whether it be employed for wise enterprise or wild speculation, whether the venture succeed or fail, in every case the investment of the savings represents consumption and expenditure, not storing up, and the result in case of success is an entirely fresh creation. Old goods have been consumed to produce new goods, and money spent to make more money.

Accumulations of real wealth are not due to saving, except in so far, to a small extent, as saving means simple avoidance of waste. What real accumulations are due to is the industry that produces more in the day than the day's wants, the improvement of instruments and processes that increase the productiveness of labour, and, above all, the durability of most of the articles we produce, most of which (all except food, tobacco, and a few others) outlast their first use, outlast many successive uses, and so are produced faster than they are worn out, and so accumulate.

Expenditure is constantly being confounded with consumption; but spending money is one thing, consuming goods is another. Expenditure is merely exchanging money for goods. The two things change hands, but remain undiminished by the transaction. Food is produced to be eaten, fuel to be burnt, clothes to be worn, everything, in short, is produced for the purpose of being consumed, or, at any rate, of being put to use. The longer the things last, fulfilling their use before they are consumed, the better; but the main thing is that they shall be put to use, and not left idle, much less rot, which they will do if not used; and whether they are consumed by the person who produced them, or are sold by him to somebody else to consume, is of no consequence.

Suppose, however, that the "savings" which figure in the ledgers of savings banks and similar institutions, and to which the authorities point with such satisfaction as evidences of an accumulated fund of real wealth, were really, as represented, a substantial something in the "capitalist's" possession, which is on no account to be dissipated, but, on the contrary, perpetually added to by fresh saving. Suppose, in short, that the great thing, especially in hard times, is to save money, not to spend it, except in clearly profitable work, the profitableness of which is to be estimated by the profit to the capitalist himself. Let us give a little parable, and see how the theory works out.

There is a crisis on hand. Trade is dull, money scarce, employment hard to find, wages falling.

T has £1,000 "put by," and looking out of the window he sees a group of labourers ragged and hungry. On one side are clothiers' and bakers' shops with clothes and food offered for sale. On the other side are tools and raw material for work also offered for sale. Behind are the millions of the human race with wants unsatisfied, which those unemployed men, fed with that food and provided with those tools would only too gladly satisfy. But the labourers must remain unemployed, the goods unsold, the bread uneaten, the clothes unworn, the wants unsatisfied, because the purchasing power, the "money" as it is called, is locked up in T's possession.

T looks out of his window at the labourers waiting for work, at the shopkeepers waiting for custom, and the sight pains him, for he is a kindly man.

"Dear me," he sighs, "trade is dreadfully dull. What are all these poor people to do to earn a living?"

His wife, who is kind too, says, "Give them a shilling apiece. That will at least enable them to buy bread."

But T, who has studied political economy, shakes his head and says, "No, that would never do. Gratuitous alms only pauperise, relieving the evil for the moment only to intensify it by and bye; degrading the men and impairing their usefulness."

"Well," says the wife, "suppose you clear that waste piece of ground at the back of the house and make a lovely pleasure ground of it. That will give the men employment."

But T says sadly, "No, that would be worse still. It would dissipate my savings, and so do away with the very fund that maintains labour. It would be downright sin in these times to waste good money in frivolous unproductive expenditure. There is a crisis, my dear, and

we must all save so that capital may again become abundant and trade revive."

"Well," says the wife, "set them to do something really useful—to produce something that you really want—potatoes, cloth, anything."

But T, reflecting a little, says "No, I am very sorry, but I don't happen to want either potatoes or cloth, and, in fact, there is nothing particular that I do want just at present; and I don't even see my way to making a profit in any way, because really trade is so bad just now that there is no opening anywhere; everything is overdone, and goods are almost unsaleable."

So neither of them know what to do, and they feel quite sad, till T suddenly says he will go to the Premier and see if some public work can't be got for the unemployed. So he goes to the Premier. But the Premier points out to him (what he knows already) that times are bad, and the Treasury necessarily suffers. Customs have fallen off; rates are hard to collect; people must not be pushed. This is no time for starting fresh public works, rather for reducing them. There is nothing for it but patience, and—saving. A little private charity perhaps; a good deal of it indeed; only the charity must be very warily bestowed; restricted to absolute necessities, and the men must be given to understand distinctly that it is charity, and that they have no real right to it, and so ought to feel very grateful for it. In short the relief must be made pretty uncomfortable and humiliating, or there will be a rush for it, and the men will be pauperised.

But meanwhile the wife, who doesn't half understand, but does wholly detest the doctrines of Political Economy, can stand the sight of those poor men no longer, so she calls them in and says: "There, go into the garden and dig and I will pay you. I am not allowed to give you anything in charity, but set to work and earn something."

Now the garden is all in apple-pie order, so the men ask wonderingly what they are to do.

"Oh!" she says, "Do anything. Dig it all up if you like, only go to work."

So they go to work. They grub up the roses and root out the bulbs, and dig up the paths, and the fountain, and the summer houses, and turn the whole place upside down, and leave it a desolation. They do, say, ten shillings worth of damages each, and she pays them ten shillings each for doing it.

This money has not disappeared but only changed hands, but there remains an actual destruction of useful property to the amount of ten shillings by each man.

Now to trace the result.

Take the first man as a sample of the lot. He is the richer by ten shillings. He steps across the street and spends it in goods. He is still the richer by ten shillings, only it is now ten shillings worth of goods instead of ten shillings worth of silver.

But the shopkeeper is also now the richer by ten shillings. True, he had to give the goods for it, but unsaleable goods are worth nothing, and his goods were unsaleable. It was a real gain to him to convert his unsaleable goods into ten shillings worth of general purchasing power.

He next spends this ten shillings in employing an idle shoemaker to make him a pair of boots, and still remains richer by ten shillings. That is ten shillings worth of boots. But the shoemaker is also now the richer by ten shillings, and he transfers it to a carpenter to make him a table, and the carpenter transfers it to a locksmith to make him a lock, and so on indefinitely; each successive man becoming in turn the richer by ten shillings in some shape or other.

But for T's wife, none of these goods—boots, table, lock, etc., worth ten shillings each, would have been produced; so that society is the richer by the whole series of them through her act.

No. 1 wanted boots from No. 2, but had nothing to give in return that No. 2 wanted; and No. 2 wanted a table from No. 3, but could not make the lock that No. 3 wanted; and so they all stuck fast. Each wanted something from the other, but the wants did not fit and trade stood still, because the money which fits all wants (broadly speaking) was locked up in T's possession till his wife set it free. Directly she turned the tap the stream flowed forth, trade revived, and production began afresh.

So what the philanthropist and the statesman knew not how to do has been accomplished in a moment by the impulsive act of a simple-minded woman. Her apparently foolish and really wasteful act indirectly caused the production of goods many times exceeding in value the property she caused to be destroyed. But it is a poor view that estimates the utility of work by the mere production of goods. For if No. 1, instead of ordering boots, had paid his ten shillings to a schoolmaster to educate his boy, and the schoolmaster had passed it on to a dentist to pull out an aching tooth, and so on through a whole series of technically unproductive but none the less useful services, would not the result have been as well worth the outlay? But for T's wife the boy would have remained untaught, though the schoolmaster stood ready to teach; and the tooth would have gone on aching though the dentist sat idle in his surgery, and a whole train of difficulties would have remained unremoved and wants unsatisfied just for lack of the half-sovereign which that good woman set spinning.

Now this is substantially what happens in real life. Saving, in the sense of cessation of spending, stops everything, production as well as exchange, for one cannot go on without the other. If A ceases to buy B's goods B will cease to produce them, unless C buys them instead; that is, unless one man's increased expenditure counterbalances and so cancels another's saving.

Of course there must be a basis of goods already existing, or else T's purchasing power will be of small use. But in real life there always is this basis. In the worst times the difficulty always is not that there is a deficiency of goods but that the goods don't sell, and the reason they don't sell is never that the goods are not wanted, but that the people who want them have not got the money to buy them, the money—the purchasing power (no matter in what form embodied) having accumulated in T's hands through T's habit of refusing to take W's goods in satisfaction of his debt, and so piling up an accumulation of claims against him.

In the business world, what constitutes a "moneyed man" (or capitalist, as he is generally called) and gains him command over the

goods and services of others is not goods or sovereigns, but claims. Not goods, for most moneyed men have no goods except what they want for their own enjoyment, while of those who possess large stocks of goods, many can't sell them or can't get paid for what they sell, while many others carry on their business on the credit system, and owe most of their earnings beforehand.

Not sovereigns, for few moneyed men have more than a few in their possession, and what sovereigns they receive they promptly pass on to the bank, converting their "money" into a claim on the bank. The sovereigns do not accumulate anywhere (except to a certain extent as necessary bank reserves), they pass from hand to hand, as much among the Ws as among the Ts: It is the CLAIMS that accumulate.

Note, too, for it is very significant, that whenever a business man talks of "realising his capital," he does not mean converting his money into goods, but his goods into money, and he forthwith converts this money into a claim, getting rid of the coin at the first opportunity.

A crisis, then, is caused by the weight of accumulating claims, mostly pure tribute claims, pressing upon and exhausting earnings, and so breaking down industry. It is caused in fact by savings—accumulated and invested.

As a crisis approaches, the symptoms of its approach intensify. Employers finding themselves getting short of money begin to borrow, to renew bills, to entangle themselves in tribute more and more, thereby hastening the catastrophe; so that, like a stream approaching a waterfall, the current quickens before the final plunge. People say then that it was the borrowing, the reckless trading on credit, that produced the mischief, when really the borrowing and the credit were but the natural symptoms and effects of the growing pressure on the workers. They HAD to borrow in order to keep going. Tension is at its height when a bank fails, or a big firm collapses; innumerable other people are involved in the failure, these involve others, and so ruin spreads in all directions. People now say it was the bank failure that did the mischief, whereas it really represented only that crack at the weakest place that indicated the intensity of the strain and the coming catastrophe that was bound to come somewhere. Of course accident, indefensibly rash speculation, or swindling may precipitate or aggravate the crash, but it is bound to come in any case.

In all this we have an exact picture of our own commercial crisis, and of the conditions that preceded it.

(a) Nothing necessary to the continuance of productive work was wanting. The land was as abundant and as fertile as before; the minerals were there, the labourers were there, and as willing to work; the food, the tools, and everything necessary to keep the work going were all present, besides more being in course of production daily.

(b) No break or hitch had occurred in the processes of production. The harvest was (as it turned out) above the average; the mines were more fully developed and giving greater promise than ever; the fruit trade had received a new impetus; we had timber and fish, and all kinds of natural products; and as to wool, the rain fell and the sun shone, and the grass grew, and the sheep eat it, and turned it into wool as usual, without our having anything to do with it. Our whole

industrial machine was in perfect order and full swing, when suddenly it stopped! Why? Because Tribute had outrun Earnings.

It is said that the crisis was caused by loss of confidence. But there was no loss of confidence—THEN.

People were over confident, not under confident. They thought the West Coast minerals were going to give abundant employment for willing workers, a home market for farm produce, and golden fortunes for investors; and in their excessive confidence they ran mining shares up to fancy prices. They thought the ocean steamers that had begun to call regularly for our fruit had already established fruitgrowing for exportation as a national industry. They had such confidence in an immediate prosperous future that they cheered on the Government to borrow recklessly, and to make railways right and left, in places where there was no rational prospect of their ever paying working expenses; in one case to tap a district that actually did not want a railway at all.

It was not till the crash of a failing bank sounded in their ears, and firms went down like ninepins that people began to lose confidence; and even then confidence was only shaken, not lost. Investors were throwing up their shares in all directions, not eagerly, and because they had lost confidence in their investments, but unwillingly, regretfully, from sheer inability to meet their calls. And why could they not meet their calls? Because the strain of accumulating tribute had reached the breaking point, and at the first note of danger some of the tribute leviers, taking fright or being pressed themselves, began to call in their claims; the people called on had to call in theirs, and so it went round.

It has been noticed with surprise that just before the crisis in Victoria the accumulations in the savings banks were unusually large. Just so. "Accumulations" will always be found to be large just before a crisis, for the simple reason that they are accumulations of claims, not of goods, and are exactly what cause the crisis.

The failure of the bank that startled the whole community and initiated the general breakup, so far from being the cause of the depression was the first movement in relief, though like other cracks caused by intense pressure, it hurt exceedingly. And all our well-meant attempts to lighten the calamity and let the victims down easy by "giving time" for payment are only prolonging the agony and widening its area.

Because tribute having outrun earnings (that is claims having accumulated beyond the power of payment), trade cannot recover nor work proceed as before till the excess is—not paid—but wiped out. You may enable the immediate debtor to scrape through somehow by "giving time," but this only shifts the ruin to someone else, generally from the non-worker to the worker. The loss is bound to fall somewhere; and the longer it is put off the greater will be the number of those, quite unconnected with the failure, who must suffer grievous loss by the mere stagnation of business, and the longer they will suffer.

Neither the failure of the V.D.L. Bank as a particular fact nor the crisis as a general fact affected the real factors of production. The land was as abundant and as fertile as ever; the minerals remained

awaiting development; all our inexhaustible natural resources remained unimpaired; the men were as able and as willing to work; the food, the tools, and all the requisites of production were ready to hand, as before; but the soil and the minerals have to remain undeveloped, the labourers wander about begging for employment; the tools rest idly in back yards or linger unsold in the stores. Why? Because the purchasing power has accumulated in the hands of the leviens of tribute (who are now losing heavily themselves, and are afraid to re-invest till affairs have settled down again), and the workers, drained dry and with unsatisfied claims still hanging over them, can do nothing.

It is the accumulation of mere claims, airy, unsubstantial, but none the less formidable claims, that has worked all the mischief, concentrating the money in the wrong hands, in the hands of the people who don't work instead of in the hands of those who do.

And the capitalist, gorged with his "savings," looks with his good wife sadly out of the window at the misery around him, and wishes that "something could be done" to set business going again.

Rent and interest saved and invested, saved again and reinvested to appear as fresh savings (in bank ledgers), cause tribute to accumulate faster than earnings—claims to outrun the power of payment. A penny put out to interest and compound interest at 5 per cent. in the time of Christ would long ere this have amounted to a sum far exceeding the value of all the real wealth existing in the world. The interest upon it would far exceed the annual earnings of the whole human race, including what was required for bare maintenance. Why, then, has not industry broken down long ago? Because (as Flurscheim expresses it) the penny every now and again gets lost; because every now and again the workers, more or less of them, fail and go insolvent, and so much of the claims get wiped out. The burden itself breaks down by its own weight. For of course industry cannot break down, production cannot cease. So long before any great general catastrophe can occur slight partial catastrophes called commercial crises occur; a number of great firms collapse, spreading ruin all around them; commercial relations are thrown into confusion, trade is paralysed, production is checked, labourers are thrown out of employment, and a vast amount of suffering is produced, but so many claims are wiped out, so much of the burden is reduced, trade revives, and work gradually recommences.

A commercial crisis is a calamity no doubt, and a terrible one, but it is a calamity that averts a still greater calamity. It is a timely and partial breakdown that averts a later, wider, and more disastrous breakdown. It is a catastrophe in a mitigated form that is bound to come sooner or later, and that the longer it is delayed the heavier it will be. And as the catastrophe is incomplete so is the recovery. The burden is not abolished but only reduced. The worker is not set free, but only so far relieved as to be able to get up and stagger along again, till the ever accumulating burden causes another partial breakdown and another partial recovery. There are good times and bad times in trade, but the good times are good only by contrast. There are times when profits rise above the average and employment becomes more abundant than usual, and

wages therefore rise too, but poverty and distress abide with us all through. Life continues to be to most a bare struggle for existence. While tens are doing well, hundreds are barely making both ends meet. While wages rise above the average they still remain below—far and away below—the point which would secure to him whose toil produces all wealth, not merely a sufficiency of wholesome food and good shelter, which the working horse gets always, but what every willing human worker has a right to expect and what alone makes life worth having—relief from the monotonous, incessant round of toil for others enrichment, some leisure for recreation and amusement, not to mention instruction and improvement, some cheering hope of a gradual rise to a better condition, and freedom from that ever haunting anxiety about the future.

Is the picture too dark? It is dark truly, but not hopeless. Far from it. We have but to take one step further and the light breaks in abundantly.

ALL TRIBUTE ARISES FROM PRIVATE OWNERSHIP OF LAND.

Private Rent (as distinguished from State Rent) arises from the fact that someone has got possession of a piece of land which he does not intend to use himself, but forbids anyone else to use, except on payment of tribute—payment not for service of any sort rendered; but for mere permission to use that portion of the earth's surface,* which payment he will either spend on his own enjoyment or invest for fresh tribute.

And Interest arises from private rent, thus: If I have £1,000 saved for my old age, then if it consists of the actual food, clothes and other goods that I expect to want in my old age, it will cost me much in barns, cellars, burglar-proof safes, and other precautions, with the possibility that it may be destroyed or stolen, notwithstanding all my precautions and the certainty that many of the goods will be spoilt by the time I require them.

It would pay me well to let some responsible person use these goods gratis, on the simple condition that he would give me back a like amount of goods at a specified date. It would even pay me to pay him to take them on these conditions. But, of course, the savings that represent provision for old age are never really made in this way, viz., in stored up goods.

If my £1,000 consist of coin, then it will certainly cost me less to store it, but still it will cost me something, and there is always the risk of robbery. Again it would pay me well to let some one else use the money on mere security given that he would return it when wanted.

But if it consist, as in practice it always does, in a mere suspended claim for payment, then no doubt it would cost nothing to keep, but I CAN'T keep it. The essence of the deferred claim is that I don't receive my payment but get, or allow, someone else to use it.

* I am speaking, of course, of economic or ground rent only, not of that portion of so-called rent which represents a charge for improvements effected.

But there seems no reason why this other person should pay me for doing what is as much for my convenience as for his; and in fact he would not pay me anything, but for this—

THAT SO LONG AS I CAN WITH THIS £1,000 BUY LAND, WHICH WILL BRING ME TRIBUTE IN THE SHAPE OF RENT, I WILL LET NO ONE HAVE IT EXCEPT ON TRIBUTE IN INTEREST EQUAL TO WHAT I COULD GET IN RENT.

Here, then, is the origin of Interest.

If the land were nationalised, and land was consequently no longer available for private investment, borrower and lender would stand on equal terms, and there would be no reason why either should pay the other for what was a matter of mutual convenience.

Rent would then go to the State to be expended in public benefits instead of to a private landlord to be expended on himself, or saved and re-invested for further tribute, which is worse still.

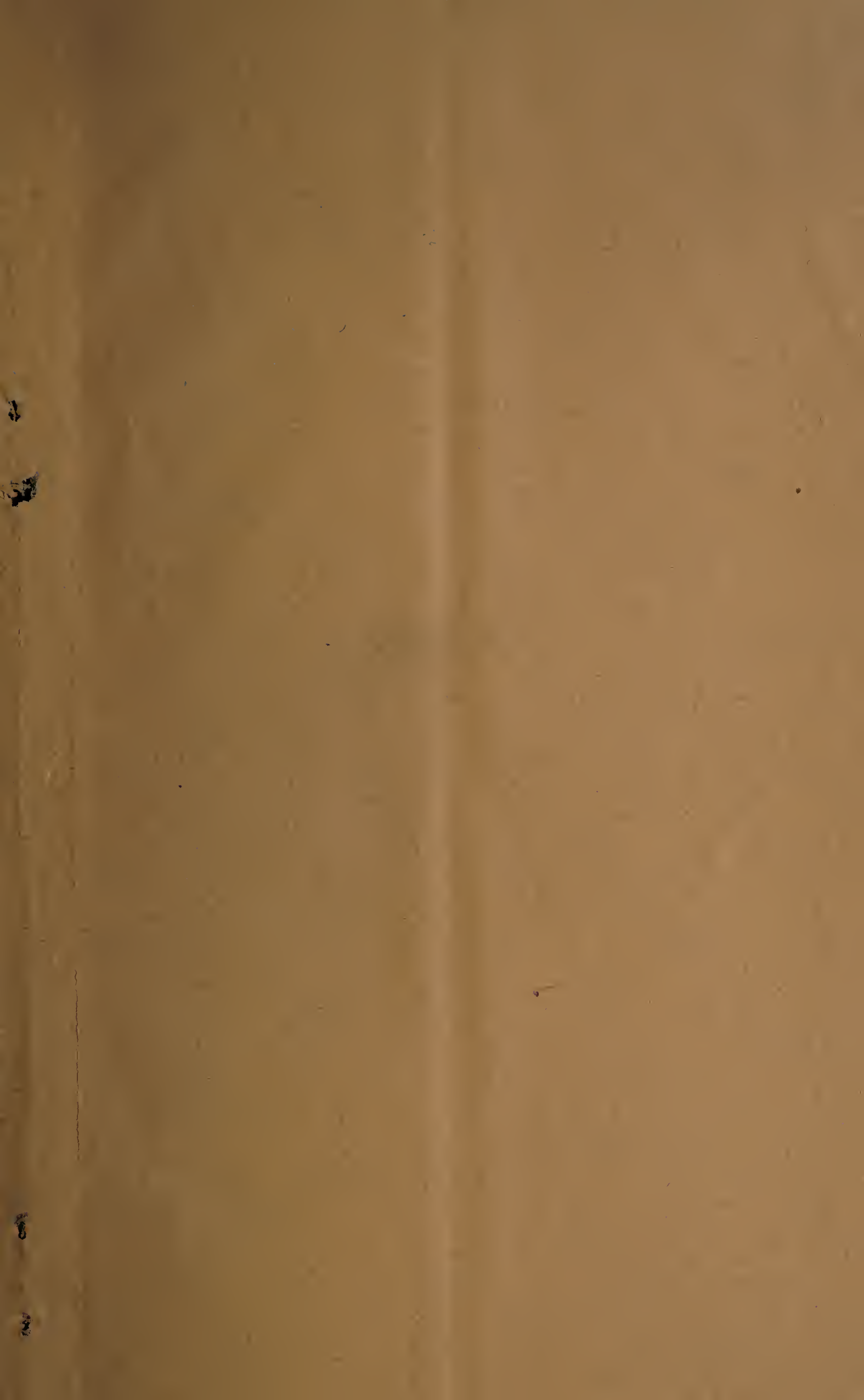
Imagine all the millions now invested in land thrown upon the market for investment. Everyone with savings now wants someone to take care of them. For they must be taken care of somewhere and somehow. Goods can be stored up, but only at cost and risk, and with the certainty of destruction to some and deterioration to all. Coin also can be stored, but also only at some cost and risk. And as it fetches no interest when so stored, there is no object in storing it. All saving then practically comes round to the savings bank type of savings—to mere claims for payment suspended, by one person against another. And how and where can these claims be kept suspended?

Say that there is £1,000 coming to me, and that I want to save it, that is, to let the payment stand over somewhere. There are only two ways in which I can effect this: One is to refuse to accept the payment from the person who owes it and to allow or to request him to let the amount stand over for a specified time; which means that the debtor may himself consume the goods or spend the money due to me on condition of producing fresh goods or earning fresh money for me to the amount required at the time appointed. But I shall of course want some security that he will really pay the debt at the time appointed, and suppose he can't, or won't, give that security? Then I must accept payment from him and hunt about for some responsible person who will consume these goods, or spend this money under the proposed conditions of repayment. But when it comes to hunting for a borrower, instead of being hunted by him, the days of interest are about over. Consider the position. Savings by the million set free, with no land available to invest them and therefore seeking a responsible caretaker, and in a hurry to find him; for till he is found, the saving remains either as an uncollected debt in the hands of a doubtful debtor, or as a bag of sovereigns hidden away privately and temptingly to the thief, or else as a deposit in a bank which pays nothing, but on the contrary charges for the custody (for of course it will pay nothing for the deposit when thousands are applying to deposit), and realise that the same cause (the nationalisation of the land that has closed LAND OWNERSHIP, as distinguished from land USE, against investment) that has increased the eagerness to lend has, at the same time, diminished the eagerness to borrow; for those who want to use land—to build, to cultivate, to mine—can now get all the security

of tenure they require by simply renting from the State, or from the Municipality. All the money that the intending user had to part with, as purchase money to GET the land, can now be kept to WORK it, and the worker can snap his fingers at the money lender.

If such a revolution were effected suddenly, it would dislocate society, throw everything into confusion, and cause widespread suffering for the moment ; but if accomplished gradually, by the State (or preferably by the local bodies) being empowered to acquire the land compulsorily, at fair compensation, bit by bit (to LET to the workers in restricted areas) wherever it was wanted and AS it was wanted, it would only produce a steady fall of interest as the field of investment narrowed, and the necessities of borrowers diminished, till interest sank to zero ; and those with savings laid by, for the only legitimate purpose for which savings need be made (that is to provide against accident and for old age and to give one's children a fair start in life) might even offer payment to responsible persons to "hold" their savings for them ; that is, pay the borrower for borrowing,—but for this ; that the State, which represents the best security of all, could always find use for the money in setting all the unemployed to construct public works and render useful public services of all kinds. The State would never either be called upon to return what it received, for each lender who wanted to realise his deposit could do so by simply transferring his title to deposit to someone else who wanted to come in, as is now done with Consols ; so the land once nationalised the State would get the benefit of the national savings and capital would have nationalised itself.





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